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Kenya

Coffee

Update Report

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Report Highlights:

Kenya coffee production and exports were estimated at 52,000 and 48,000 mt respectively for 2001/02. A marginal increase to 55,000 mt is forecast for 2002/03. The coffee industry is struggling as it implements the new Act amidst many problems ranging from low farmer morale, low prices, production issues, marketing and policy matters.

Includes PSD changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Nairobi [KE1], KE

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Executive Summary

During 2001/02 production and exports were estimated at 52,000 mt and 48,000 mt respectively. A marginal increase to 55,000 mt is forecast for 2002/3.

The new Coffee Act is being implemented amidst many problems ranging from low farmer morale, complex production issues, marketing and policy matters. The marketing role hitherto a preserve of the Coffee Board of Kenya has been taken over by private coffee marketing agents(4 licenced). In line with the requirements of the Act Coffee Research Foundation and the Coffee Board of Kenya have retrenched almost three quarters of their staff.

Exchange rate: 1 USD = 78 kshs

Production

Production for 2001/02 is estimated at 52,000 mt, while exports were put at 48,000 mt. A marginal increase to 55,000 mt is forecast for 2002/3. There are difficulties in obtaining accurate data from the Coffee Board of Kenya following retrenchment and unwillingness from the co-operative societies to give information (most of them are expressing interest in becoming Marketing Agents).

The farmers are demoralized with the reduced coffee prices (now averaging about USD 60 per bag), non performing cooperatives in most cases and uncertainty and unpredictable nature of the ongoing reforms. Intercropping with more economically viable crops has become a common occurrence in all the coffee areas (especially among the smallholders). The future of the coffee industry lies in the medium and large scale farmers.

| | | | | | | |
|------------------------|---------------|---------|-------------|---------|---|---------|
| PSD Table | | | | | | |
| Country | Kenya | | | | | |
| Commodity | Coffee, Green | | | | (1000 HA)(MILLION TREES)(1000 60 KG BAGS) | |
| | Revised | 2001 | Preliminary | 2002 | Forecast | 2003 |
| | Old | New | Old | New | Old | New |
| Market Year Begin | | 10/2000 | | 10/2001 | | 10/2002 |
| Area Planted | 0 | 162 | 0 | 165 | 0 | 165 |
| Area Harvested | 0 | 155 | 0 | 155 | 0 | 155 |
| Bearing Trees | 0 | 265 | 0 | 205 | 0 | 215 |
| Non-Bearing Trees | 0 | 12 | 0 | 12 | 0 | 12 |
| TOTAL Tree Population | 0 | 277 | 0 | 217 | 0 | 227 |
| Beginning Stocks | 600 | 385 | 235 | 227 | 222 | 256 |
| Arabica Production | 862 | 862 | 870 | 867 | 1000 | 918 |
| Robusta Production | 2 | 2 | 2 | 2 | 2 | 2 |
| Other Production | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Production | 864 | 864 | 872 | 869 | 1002 | 920 |
| Bean Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Roast & Ground Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Soluble Imports | 3 | 3 | 3 | 3 | 3 | 3 |
| TOTAL Imports | 3 | 3 | 3 | 3 | 3 | 3 |
| TOTAL SUPPLY | 1467 | 1252 | 1110 | 1099 | 1227 | 1179 |
| Bean Exports | 1209 | 1002 | 865 | 820 | 900 | 880 |
| Roast & Ground Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Soluble Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Exports | 1209 | 1002 | 865 | 820 | 900 | 880 |
| Rst,Ground Dom. Consum | 20 | 20 | 20 | 20 | 20 | 20 |
| Soluble Dom. Consum. | 3 | 3 | 3 | 3 | 3 | 3 |
| TOTAL Dom. Consumption | 23 | 23 | 23 | 23 | 23 | 23 |
| Ending Stocks | 235 | 227 | 222 | 256 | 304 | 276 |
| TOTAL DISTRIBUTION | 1467 | 1252 | 1110 | 1099 | 1227 | 1179 |

Stocks

Stocks have become increasingly hard to determine as most of the coffee societies are not willing to provide this data.

Most of them intend to be marketing agents and have hoarded some coffee in anticipation of being licensed. This will certainly have an impact on quality as it deteriorates in the stores.

Policy

The coffee industry has experienced several structural changes in the last decade. The latest is the Coffee Act 2001 that came into force in March 2002. The Act has far reaching changes in the industry ranging from farmer participation to milling, marketing and regulatory issues. The marketing role hitherto a preserve of CBK is presently being handled by marketing agents (presently 4 licensed). The producers and the millers now produce and process coffee for the market often with fewer middlemen between the producer and the auction.

The industry is pre-occupied with a number of issues ranging from bitter controversies over industry control brewing between farmers, millers, Coffee Board of Kenya (CBK) and the GOK to hopes of becoming marketing agents by many co-operatives. There are over 80 companies that have requested Dealer "A" licences (to allow selling of clean coffee outside of Kenya, can also import). There are over 10 companies wishing to be marketing agents.

CBK and Coffee Research Foundation (CRF) now separate under the new Act recently underwent staff rationalization due to lack of funds and abolition of the marketing function in line with the new Coffee Act. The "rightsizing" touched all levels of management, an exercise that might have far reaching implications especially among the scientific staff at the CRF and database maintenance by the CBK.

A reverse in the decline of industry performance is still not foreseeable in the near future as the farmers are demoralized with the reduced coffee prices, non performing cooperatives in most cases and the uncertainty and unpredictable nature of the on going reforms.

Marketing

The marketing policy has retained the central marketing system under the Nairobi Coffee Exchange (NCE). The change over of CBK from being a player and referee to a regulator transfers marketing functions to marketing agents. With the new arrangements the dealers and exporters at the NCE will pay marketing agents promptly who in turn will pay growers within seven days. This may improve payment to farmers who were nearly always paid late in the past.

The new Act was adopted in the middle of the coffee year and there remains about half a million Kenyan shillings that still remains to be paid to farmers from the previous year. It is not clear from the Board how soon farmers will receive these funds. Additional delays in payment might demoralize the farmers in question, which in turn may further reduce acreage.